

**Alabama Department of Insurance Narrative**  
**for the Department of Health and Human Services**  
**Grants to States for Health Insurance Premium Review—Cycle I**

**PROJECT ABSTRACT**

The Alabama Department of Insurance is pleased to submit the following grant application to prepare the state for implementation of the Affordable Care Act and enhance health insurance rate reviews. In order to accomplish the goal of effectively positioning the Department for future implementation, the Department has created three main objectives: (1) establish rate review and approval authority; (2) standardize rate review, approval and information submission; and (3) develop public awareness, build coalitions and strengthen grassroots support. The Department has significant challenges as it currently does not have rate review and approval authority and must obtain such statutory authority in order to better serve Alabamians. The Department anticipates that it will:

- Develop laws, regulations, policies and procedures to implement requirements of the Affordable Care Act.
- Develop standardization regarding filings, rate reviews, approval and information submissions.
- Foster transparency in rate filings and rate reviews.
- Conduct examinations of companies to ensure premium rates are adequate, not excessive or unfairly discriminatory.
- Develop and upgrade existing information technology infrastructure to assist in rate reviews and public disclosure while maintaining internal security measures.
- Redesign DOI website to act as the central repository of company rate information and data.
- Increase public awareness, build coalitions and develop grassroots support for Department initiatives as they relate to the Affordable Care Act through media outreach, external message development, publication dissemination and enhancing existing website to assist consumers.

In order to accomplish these initiatives, the DOI anticipates utilizing approximately \$1 million in grant funds to create a Health Section within the agency which would include the project director, the assistant project director, two examiners, increased contractual actuarial support, a consumer services specialist, a communications professional, legal support, and information technology expertise. Training costs as well as travel expenses and fringe benefits for the grant staff will be included in the budget. In addition, website upgrades, publication production and dissemination, and town hall meetings for public education are also included in the budget.

## **PROJECT NARRATIVE**

The Alabama Department of Insurance's mission is to serve the people of Alabama by regulating the insurance industry, providing consumer protection, promoting market stability and enforcing fire standards safety and laws. The Affordable Care Act has transformed the health insurance market already and will continue to do so. In order to effectively meet these changes and challenges, the DOI must be positioned as the health insurance resource in the state and be able to timely respond to the dynamics of the changing market. This grant proposal marks the first step to achieving those goals. It is crucial that the DOI work diligently to achieve the proposals outlined in this grant application.

### **(A) CURRENT HEALTH INSURANCE RATE REVIEW CAPACITY AND PROCESS**

Currently, the Alabama Department of Insurance (DOI) has limited statutory authority to review and approve or disapprove health insurance premiums. It can only review and approve or disapprove premiums for health care service plans and health maintenance organizations (HMO). DOI does not have statutory authority to review and approve or disapprove health insurance premiums for commercial insurers, although there are premium requirements for small group plans (50 lives or less) as required by federal HIPAA laws. (See Appendices A and B for current Alabama laws and regulations).

Our primary health care service plan in the state is Blue Cross Blue Shield of Alabama (BCBSAL). BCBSAL premiums are considered approved if they do not change the expense formula (Ala. Code § 10-4-109, see Appendix B). There are only a handful of HMOs in the state. HMO rates must be approved in advance of implementation. BCBSAL and HMOs must provide an actuarial justification for initial premiums and any premium increases. BCBSAL and HMOs are permitted to use issue age or attained age premiums, geographic premiums, male/female premiums, and/or smoker/non-smoker premiums. Small group health plans' premiums are regulated under Regulation 482-1-116. (see Appendix B).

The Alabama DOI does not have general authority to impose rating rules such as community rating (except for small group) or rating bands. Because of this limited authority, the DOI does not have the ability to regulate health insurance premiums or to limit premium increases. With skyrocketing health insurance rates, health coverage has become unaffordable for many Alabama families. In the current environment, the DOI is:

- Unable to fully utilize information technology to support the DOI's rate review process and does not have the ability to cross-reference planned systems enhancements. In addition, the DOI does not currently have the ability to make rates and rate changes available to the public through electronic means such as a dedicated website that would provide rate information to the public.
- Unable to dedicate sufficient staff to adequately review any increase in filings as required by the Affordable Care Act.

- Unable to publicly disclose rates and rate changes to the public due to state laws and regulations which currently classifies this information as proprietary. As a result, the DOI does not have any laws or regulations that allow public access to rate filings.
- Unable to provide summaries of rate changes in plain language for consumers since the DOI does not have sufficient staff to perform such work.
- Unable to provide advance notice to consumers prior to proposed rate changes being implemented. Consumers are not provided with any documents nor is there an official comment period for consumers to review and comment on the proposed rate changes.
- Unable to adequately track and summarize the nature of consumer inquiries and complaints.
- Unable to take actions against insurance companies regarding health insurance rates since the DOI does not have any statutory rate authority other than BCBSAL, HMOs and small employer groups.

As can be seen, this grant is critical to enabling the DOI to provide viable solutions to ensure Alabamians have access to health care insurance that is reasonable and that the protections and criteria that make up the Affordable Care Act are properly implemented.

**(B) PROPOSED RATE REVIEW ENHANCEMENTS FOR HEALTH INSURANCE:  
A COMPREHENSIVE PLAN FOR ALABAMA**

When the DOI receives the grant, several critical tasks will immediately begin and continue simultaneously throughout the duration of the grant cycle. These include three main objectives:

1. Establishing rate review and approval authority;
2. Standardization of rate review, approval and information submission; and
3. Public awareness, coalition building and grassroots development.

**1. ESTABLISHING RATE REVIEW AND APPROVAL AUTHORITY**

In conjunction with public outreach and education, the DOI will develop legislation to achieve rate review and approval authority. Development of new partnerships and leveraging existing partnerships and relationships with insurers, businesses and other organizations is key. The DOI has the authority to administer all laws relating to insurance rates and rating systems of all companies authorized to do business in the State of Alabama, with the exception of life and health and accident lines and rates for title insurance. In the past, legislation has been introduced which would grant rate approval authority to the DOI regarding life and health rates, and unfortunately, the legislation failed to pass. In 2011, in addition to grant funding for the grassroots and communications outreach, a new administration will take office and new faces will be in the Alabama Legislature as the result of an election year. With these changes, the DOI anticipates more public support available to encourage the Legislature to act.

Additionally, the legislation will be revised in light of the Affordable Care Act with input from health insurers, health insurer organizations and business associations as well as the National Association of Insurance Commissioners (NAIC). This will create broad-based support from the very entities that would be regulated under the new law. With minimal anticipated

opposition as a result of the new partnerships forged under the grant as well as the strengthening of existing relationships, the DOI expects that the 2011 Legislative Session, which begins in March, will bring the long awaited authority to protect the consumers and businesses in this state.

As part of legislative reform efforts, the existing trade secrets law and confidentiality provisions within the insurance code and regulations which currently protect public rate disclosures will need to be modified to meet the terms of the Affordable Care Act.

## **2. STANDARDIZATION OF RATE REVIEW, APPROVAL AND INFORMATION SUBMISSION**

DOI rate review and approval authority has been extremely limited; however, with the passage of the Affordable Care Act, the DOI anticipates a dramatic increase in the activities associated with health insurance filings, reviews and subsequent examinations to ensure solvency, adequacy, nondiscrimination and compliance with state and federal laws and regulations. This includes rate reviews and HHS requirements. Initial estimates show that approximately 60 health insurers are licensed in Alabama to issue the type of coverage addressed by the Act. More research will determine exactly how many have written or are currently writing major medical among other health insurance products. However, this number gives an indication that the expected workload will be high.

In response, the DOI will reorganize its Rates and Forms Division. Currently, the DOI has one rates and forms analyst who handles reviews of all life, health, accident, annuity and disability insurance filings. As far as actuaries, the DOI currently utilizes one in-house actuary and one consulting actuary to handle the same workload. To ensure solvency, examinations are conducted every five years, but these examinations have not involved health insurance rates or rate changes.

Under the grant, the DOI proposes to create a Health Section under the Rates and Forms Division which would be dedicated to implementation of the Affordable Care Act. It is anticipated that this workload would only increase as the Act continues to phase in. Ongoing work will continue to be required. As a result, it is important that life and annuities rate reviews and tasks be segregated from health insurance in order to avoid overburdening staff.

**Create Health Section in the DOI Rates and Forms Division.** This Section would be charged with the following tasks and responsibilities:

- **Development of standardized filings.** A standardized filing format will enable the DOI and public to have access to the experience, assumptions, expenses and other items used by an insurance company to develop health insurance rates. This standardized format will enable companies to quickly assemble the information necessary for DOI review and allow DOI to approve, disapprove or request a modification of any rate change. Additionally, standardization will ensure that information provided by the insurance companies is consistent from company to company and will facilitate the review.
- **Development of Regulations, Bulletins, Policies and Procedures.** Regulations and Bulletins will also need to be developed in order to ensure consistency and clarification on DOI policies and procedures. These regulations would also govern disclosure and

public access to rate filings. As part of this effort and in partnership with HHS, the DOI will develop parameters for rate review and approval. A complete set of factors to be used in the rate review including, but not limited to, medical loss ratios, the costs of medical care, the financial history of the company requesting the rate review and previous rate changes will be developed. The DOI also will develop comparisons of previous rate change projections as prepared by the company with actual emerging experience to determine whether the projections were appropriate, and if not appropriate, determine what actions need to be taken (reduce the implemented rate increase or require rebates as determined by the Act).

Further, the DOI will develop procedures that explain how retrospective reviews are triggered and how they will be implemented. Those procedures will include how rebates are to be determined, what information is required in order to determine whether a rebate is required or not, how rates and rate changes are determined to be justified or not, and how rebates will be calculated and disbursed.

Transparency will be a goal of any regulations developed. As a result, regulations will include sufficient comment periods for consumers and other interested parties to review and comment on proposed rate changes. The DOI will streamline processes for public meetings and/or hearings on rate filings.

- **Public information.** The DOI will develop a comprehensive description of the rate review process, so that it is understandable to all parties involved including, but not limited to, the insurance companies, DOI personnel, consumers and other interested parties. This information will be placed on the DOI website as required by the Act along with the publicly required information in a manner that will help consumers and insurers understand the information provided. Additionally, the DOI will actively seek public input on grant initiatives, including regulations, public information and the manner in which it is presented.
- **Information technology system enhancements, upgrades and development.** The DOI will work on enhancements, redesign and upgrades of the existing information technology infrastructure to assist in the rate review process. These systems will be geared to ensuring seamless transmission of data and ease in making this information public. As part of these efforts, the DOI will revamp the DOI website so that consumers will have complete and accurate information about health insurance rates and rate changes prior to those rates and rate changes being implemented. Further explanation regarding the website enhancements are described elsewhere in this proposal.
- **Publication of rate data.** The DOI will develop systems and procedures so rate filings will be publicly disclosed. This public disclosure will be by means of the website, town-hall meetings and other avenues of public expression as described elsewhere in this proposal. The DOI will ensure that the information available from the companies is the same as the information being provided to the public by the DOI.
- **Examinations.** The DOI will develop examination procedures for examining the initial rates submitted by companies and the subsequent rate change requests submitted by companies. These examination procedures would involve reviewing the prior experience of the company to make sure that the initial rates are based upon appropriate experience. It will be necessary to verify that the experience takes into account the requirements of the Affordable Care Act. In subsequent examinations, the DOI will need to verify that the experience reported to the Department and HHS is accurate and that the rate changes are based only upon that experience. As a result,

initial examinations of companies by experienced examiners and actuaries will begin during the grant year to establish these benchmarks. Subsequent examinations are anticipated as part of the DOI's effort to effectively regulate these companies.

- **Staffing needs for the Health Section.** In order to accomplish the goals of this grant application and to adequately staff the Health Section of the Rates and Forms Division, the following staff will be allocated or added to the new Section:
  - **Examiners.** Two experienced examiners, along with actuarial support, will conduct these critical examinations of health insurers during the first year of the grant as described above.
  - **Actuaries.** The DOI currently has one actuary on staff to handle all life, health and annuity filings as well as one consulting actuary with similar expertise. During the initial examinations and grant year, in order to expedite the grant, the consulting actuary's contract will be increased to account for the additional work hours required to assist with examinations.
  - **Legal.** The assistant project director will also serve as the DOI's legal support and be primarily responsible, along with other Section members, for drafting regulations, legislation and other legal requirements to implement the grant and the Affordable Care Act in Alabama.

This new Section will function under a team approach. Other team members, who are described elsewhere in this grant proposal, will include a consumer services specialist, an information technology specialist, a communications specialist as well as DOI leadership—from the Commissioner to the governmental affairs manager. While each individual staff member will have specific areas of expertise, the group will work together closely to implement the grant and upcoming changes to the health insurance market.

### **3. PUBLIC AWARENESS, COALITION BUILDING AND GRASSROOTS DEVELOPMENT**

One of the most critical aspects of this grant will be the successful passage of legislation allowing the DOI to have rate review and approval authority for health insurance as defined by the Act. In order to accomplish this goal, the DOI must embark on a series of grassroots and outreach efforts on the Affordable Care Act and its requirements. Under this grant, the DOI will serve as the leading voice for health insurance regulation in Alabama and establish itself as the trusted resource for the business community, consumers, and state and local leadership. Several communication tools and public awareness avenues will be utilized to quickly disseminate useful information including rates and rating information as well as increase community support for DOI approval authority over health insurance rates.

- **Website.** The DOI currently maintains two websites. One serves as the main DOI website and includes information on all aspects of insurance ([www.aldoi.gov](http://www.aldoi.gov)). It has been criticized by consumer groups as being unfriendly and confusing with little helpful consumer information. The second site, [www.healthinsurance.gov](http://www.healthinsurance.gov), was recently inherited from the Alabama Department of Public Health after that agency no longer wished to maintain the site. Since the DOI has taken control of the site, it has not updated the site nor provided information on rating, health care reform or current insurer information due to lack of appropriate staff. The DOI's main site is tied to several databases with the NAIC for reporting purposes as well as its internal data systems for public records. In order to create an informational site, expand information on the Affordable Care Act, and prepare the site for rate and rating data of insurers in easy to

understand language and simplified directions, the DOI plans to consolidate the two websites, enhance its main website to add increased flexibility, improve its design to aid in finding health care information quickly and easily, and to bolster its content management system for data sharing. The key to the information provided on the website, however, will hinge on DOI's ability to develop "plain English" language summaries of rate changes in order that consumers might easily understand and comprehend rate changes and how those rate changes would affect them.

- **Publications.** The internet serves as a quick and efficient way to disseminate information; however, the state has significant areas—especially in rural communities—where internet access is minimal. As health care reform progresses and rating requirements take effect, the practicality of quickly producing publications to educate businesses and individuals will be difficult. A basic toolkit will be developed where facts sheets can be quickly reproduced and replaced as information requires updating. These toolkits will be utilized in town hall meetings to provide comprehensive information on health insurance reforms including premium rate information as well as questions that need to be asked prior to purchasing health insurance, and "red flags" associated to help individuals identify health insurance sales abuses and fraud. Additionally, these toolkits will be exceedingly helpful as a quick reference tool for Alabama's businesses and citizens as they evaluate rates and compare plans.
- **Frequently Asked Questions.** A series of frequently asked questions (FAQs) will be developed by DOI staff and housed on the website. Additionally, these FAQs will be provided to the consumer services call center in order to enable existing staff in the call center to respond to basic inquiries. Communications staff and the health insurance consumer specialist in the Health Section of the Rates and Forms Division will develop these FAQs.
- **Town hall meetings.** A series of town hall meetings involving the NFIB (National Federation of Independent Business), the Business Council of Alabama and local Chambers of Commerce will be held throughout the state. These meetings will provide basic education on the health reforms under the Affordable Care Act, premium rate information and rating structures as well as the role of the DOI. A tour of the newly updated website to familiarize attendees with the information available online will also be a part of these meetings. It is expected that state and local officials will serve as speakers with the indirect goal of educating them on these issues in order to serve as referral resources to the DOI for further information such as premium rate information and rating structures, consumer protection and fraud reporting.
- **Media outreach.** Outreach to media outlets will also be critical to establish the DOI as the leading expert on changes in health insurance, the health insurance market and to answer questions as these changes take effect. News releases, public service announcements as well as a series of strategically placed editorial board meetings will be developed in order to position the DOI as the unbiased Alabama resource.
- **Staffing needs.** The DOI does not have a dedicated communications staff; rather spokesperson responsibility is directed to a governmental affairs manager. Under this grant, a communications professional would be included to develop and maintain website content on health insurance, create outreach messages, and develop press releases, public service announcements and informative publications designed to educate and inform Alabama businesses, insurers, individuals and coalition partners on the Affordable Care Act and its reforms as they are implemented. Anticipating increased calls and requests for assistance from the business community and individuals on health insurance as a result of the Affordable Care Act and the subsequent availability of rating information, a consumer specialist specializing in health insurance will be added to staff

to assist callers. This specialist will serve as the subject matter expert for other consumer specialists within the call center who do not have the expertise required, but who have a basic working knowledge of health insurance and can assist during high call volume.

### **(C) REPORTING TO THE SECRETARY ON RATE INCREASE PATTERNS**

Section 2794 of the Public Health Services Act requires health insurance issuers offering individual or group coverage to submit to the Secretary and the relevant State a justification for an unreasonable premium increase.

Currently, Alabama insurance law does not give the DOI the authority to review and approve health insurance premium rates. When the health insurance rate review piece of the Affordable Care Act is implemented, all insurance carriers in the market covered by the Act will be required to file rate changes with the DOI for review and approval, and, if the rate change is above an HHS established benchmark, with the HHS Secretary as well. These filings will consist of actuarial memoranda, premium rates, additional material to justify these premium rate changes and other technical data including, but not limited to, earned premium, incurred claims, number of policyholders nationwide as well as in Alabama, and trend factors by benefit category. The DOI anticipates these filings to be large, complicated and time-consuming, and will require special expertise for diligent and timely review. This will require a reallocation of existing actuarial resources to handle this increased workload.

The DOI requires the filing of all insurance forms and rates to be made electronically via the System for Electronic Rate and Form Review (SERFF) which was developed and maintained by the NAIC. In order to comply with the requirements of Affordable Care Act as to reporting of rate information to the HHS Secretary and insuring this information is in the public domain, the DOI will develop additional internal data systems and other crosswalks between competing systems to be able to pull this information from SERFF and convert to a viable reporting system for submission to the HHS Secretary and posting on the DOI's website. The DOI wants to ensure that this information is in a consumer-friendly format—easy to navigate, understandable, always current, and above all, useful.

It is anticipated that, as a result of the data sharing and data gathering which will be required under the grant, a more robust encryption software system will need to be developed to transfer data between HHS, SERFF and the DOI. An additional programmer may be required depending upon the amount of programming required for website upgrades, system enhancements and security issues between systems. Hard drive space may need to be increased on the virtual web servers as well as the application server.



**GRANT BUDGET SUMMARY**

<b>Object Class Category</b>	<b>Federal Funds</b>	<b>Non-Federal Cash</b>	<b>Non-Federal In-Kind</b>	<b>TOTAL</b>	<b>Justification</b>
<b>Personnel</b>	\$181,902	\$0	\$0	\$181,902	
<b>Fringe Benefits</b>	\$67,021	\$0	\$0	\$67,021	
<b>Travel</b>	\$ 39,550	\$0	\$0	\$39,550	
<b>Licensing Fees</b>	\$10,000 \$25,000	\$0	\$0	\$10,000 \$25,000	Software (Examiners ACL Licensing Fees)  SERFF Licensing and Upgrades
<b>Supplies</b>	\$10,615	\$0	\$0	\$10,615	Publications (Toolkits, Fact Sheets, FAQs, Reproduction/Printing)
<b>Contractual</b>	\$187,000	<b>\$0</b>	\$0	\$187,000	Consulting Actuaries will be hired on a contract basis.

<b>Other</b>	\$150,000	\$0	\$0	\$150,000	Insurer Examination Costs (Statutory expenses)
	\$10,000			\$10,000	Website (Graphics, Encryption Software, Current Management Systems Upgrades, Server rental space
<b>\$ Indirect Charges</b>	\$0	\$0	\$0	\$0	No indirect charges
<b><u>TOTAL</u></b>	\$681,088	\$0	\$0	\$681,088	